Request No.: AG-4-1

Referring to the response to Attorney General Information Request 2-6(a), Page 1, why is all of the general plant allocated to distribution, with no general plant allocated to any of the other functions?

Response:

Given that the Company has not completed a functionalized cost of service study and recognizing that allocations of general plant to other functions would be small, the Company made a simplifying assumption and allocated 100% of the general plant to distribution in its response to Attorney General Information Request 2-6(a), Page 1.

In response to this request, the Company has performed additional analysis to identify the amounts of general plant that are allocated to transmission as per FERC jurisdictional revenue requirement calculations as well as the amounts of general plant that are joint-owned unit costs that should be reclassified with generation / stranded cost recovery. These adjustments, along with revised Total Electric Distribution Plant in Service figures for 1999 and 2000, are shown on Exhibit AG-4-1.

Person Responsible: Stephen J. Curran

Request No.: AG-4-2

Referring to the response to Attorney General Information Request 2-6(a), Page 1, please provide calculations supporting the 64.4% allocation factor for common plant.

Response:

The Company allocates certain expenses on a basis of 64.4% to the electric division, and 34.6% to the gas division. This allocation is based on a study by the Gilbert Associates and has been in use since the Company's 1984 electric rate case.

The Company cannot locate a copy of the study.

Person Responsible: Stephen J. Curran

Request No.: AG-4-3

Referring to the response to Attorney General Information Request 2-6(a), Page 1, why is all of the electric common plant allocated to distribution, with no electric common plant allocated to any of the other functions?

Response:

All of the Company's electric common plant is dedicated to distribution-related services.

Person Responsible: Stephen J. Curran

Request No.: AG-4-4

Referring to the response to Attorney General Information Request 2-6(b), Page 1, please explain the allocated portion of accumulated depreciation on the transmission plant and provide supporting calculations.

Response:

In 1999, an adjusting entry was made to reclassify $4,166,057 from Transmission Plant to Distribution Plant, as shown on FERC Form 1, Page 207, lines 53 and 69, column e. This adjustment reflects a reclassification of transmission and distribution facilities in accordance with the FERC's seven-part test contained in FERC Order No. 888 as approved by the MDTE in Docket No. 97-93 and by FERC in Docket No. EL 98-42-000. The allocation factor of accumulated depreciation was calculated from the transmission plant in service as of 12/31/99 ($5,449,195) divided by the 1/1/99 beginning year balance ($9,564,759) which equals 57%. See Attachment AG-4-4, pages 1 and 2.

Person Responsible: Stephen J. Curran

Request No.: AG-4-5

Referring to the response to Attorney General Information Request 2-6(b), Page 1, please reconcile the accumulated deprecation on general plant to the accumulated depreciation on general plant in the 1999 FERC Form 1, Page 219.

Response:

See Attachment AG-4-5, pages 1 and 2 for reconciliation for both 1999 and 2000. Page 2 indicates a variance of $7,250, which is less than one tenth of one percent of the total accumulated depreciation balance of $15,862,920. This $7,250 amount has been reclassified on the Company's books in March 2001. The impact of this reclassification reduces Electric Accumulated Depreciation and increases Gas Accumulated Depreciation balances at December 31, 2000.

Person Responsible: Stephen J. Curran

Request No.: AG-4-6

Referring to the response to Attorney General Information Request 2-6(b), Page 1, please reconcile the accumulated depreciation on common plant to the accumulated depreciation on common plant in the 1999 FERC Form 1, Page 356.1

Response:

See Attachment AG-4-6, pages 1 and 2, which documents the reconciliation for both 1999 and 2000 and the accumulated depreciation on common plant to FERC Form 1, page 356.1 as shown on Page 3 of 3.

Person Responsible: Stephen J. Curran

Request No.: AG-4-7

Referring to the response to Attorney General Information Request 2-6(c), Page 1, please provide workpapers for the allocation of deferred taxes to the distribution function.

Response:

See Attachment AG-4-7 which shows the allocation of deferred taxes to the distribution function for the years 1999 and 2000. In performing this detailed analysis, some corrections to Attachment AG-2-6(c) & (d), deferred tax assignments to functions, have been made as shown on Attachment AG-4-7. These assignments revise the Attachment AG-2-6(c) & (d).

Person Responsible: Stephen J. Curran

Request No.: AG-4-8

Referring to the response to Attorney General Information Request 2-6(c), Page 1, please explain the allocation of the SFAS 109 regulatory asset and SFAS 109 regulatory liability to the distribution function and provide supporting workpapers.

Response:

The Electric Division SFAS 109 regulatory asset and the SFAS 109 regulatory liability are included in the deferred taxes of $9,273,651 for 1999 and $11,311,593 as shown on AG-2-6(c) & (d). The 1999 deferred taxes of $9,273,651 and 2000 deferred taxes of $11,311,593 were assigned to three functions; generation, internal transmission, and distribution on AG-4-7. The Company has calculated the distribution deferred taxes, which includes SFAS 109 regulatory assets and liabilities as shown on AG-4-7. The calculation was performed by first identifying those deferred taxes specifically associated with generation. Then, the deferred taxes associated with internal transmission (IT) were calculated using the IT factor which is the percentage of transmission plant to total transmission and distribution plant. The remainder of deferred taxes (e.g. after allocation to general and internal transmission) is assigned to electric distribution as seen on AG-4-7.

Person Responsible: Stephen J. Curran

Request No.: AG-4-9

Referring to the response to Attorney General Information Request 2-6(h), are any of the customer advances not applicable to distribution? If so, please identify and quantify any customer advances applicable to other functions.

Response:

All of the customer advances shown on Attorney General Information Request 2-6(h) are applicable to distribution.

Person Responsible: Mark H. Collin

Request No.: AG-4-10

Referring to the response to Attorney General Information Request 2-6(j), please explain the following:

a. Why is a cash working capital allowance for purchased power included in the distribution cash working capital allowance?

b. What is the justification for using 45 days of other operating and maintenance expense in the cash working capital allowance?

c. Why is the operating and maintenance expense of $12,981,341 in 1999 different from the amount shown in Attachment AG-2-8-2 for 1999?

Response:

a. FG&E continues to be the provider of last resort for customers' energy supply requirements. The distribution business is ultimately responsible for making payments for energy supply and billing, collecting and financing such costs. As such the working capital for purchase power "post-restructuring" continues to be included in the distribution function cash working capital allowance in the same way it was included "pre-restructuring". There is no recovery mechanism for the related working capital cost of purchase power (e.g. energy supply) in any of the Company's other unbundled rate components. The working capital calculation for purchase power has been revised on Attachment AG-4-10, page 1, to $565,565 for year 2000. The total purchase power costs of $30,357,540 have been referenced to FERC Form 1, as shown on Attachment AG-4-10, page 2 of 2.

b. The 45 days convention has been the standard of the Department and other regulatory jurisdictions for many years. In the Department's final order in the Company's last gas rate case, DTE 98-51, the Department expressed concern over the reliability of the 45 days convention as a measure in general because it had been developed so long ago. The Department has not, however, been encouraging utilities to undertake expensive lead-lag studies. The Department directed FG&E, as it has been encouraging other utilities, to propose in its next rate proceeding, a cost-effective alternative to the 45 days or otherwise show that proposing an alternative would not be cost-effective. The Company has used the 45 day standard as a simplifying assumption absent a lead-lag study or other analysis of alternatives. The schedule established in this proceeding does not allow time for such a detailed analysis.

c. The Other O&M Expense in the working capital calculation includes O&M expenses of $10,884,325 for year 2000 for which the distribution business is responsible. These expenses are detailed on Attachment AG 4-10, page 2 of 2 and referenced to FERC Form 1. The working capital for these other O&M expenses has been revised on Attachment AG-4-10 to $1,907,468 for the year 2000. Working capital continues to be included in the distribution function cash working capital allowance "post-restructuring" in the same way as it was included "pre-restructuring".

Person Responsible: Mark H. Collin

Request No.: AG-4-11

Please provide workpapers for the distribution revenue shown on Attachment AG-2-8-1.

Response:

Please refer to Attachment AG-4-11(A) which shows supporting Base Revenues provided in AG-2-8. In preparing this detail, some class revenue assignments differ from those initially provided in AG-2-8, however, the total distribution revenue remains unchanged. Also provided is Attachment AG-4-11(B) which revises the Electric Distribution Revenues on Attachment AG-2-8-1, reflecting correct class distribution revenue assignments.

Person Responsible: Mark H. Collin

Request No.: AG-4-12

Please reconcile the Miscellaneous Service Revenues shown on Attachment AG-2-8-1 inn 1999 to the Miscellaneous Service Revenues shown in the 1999 FERC Form 1, Page 300.

Response:

A reconciliation of Miscellaneous Service Revenues between the FERC Form 1, Page 300 and Attachments AG-2-8-1 (for 1999), and AG-2-8-1 Supplement (for 2000), is provided below:

	2000	1999
Miscellaneous Service Revenues (ties to AG-2-8-1)	$76,409	$1,965
Less:		
Water Heater Rental Revenues (excl. from Base)	($45,583)	($64,390)
Total (ties to FERC Form 1, Page 300)	$121,992	$66,355

Person Responsible: Stephen J. Curran

Request No.: AG-4-13

Please reconcile the distribution depreciation expense shown on Attachment AG-2-8-1 in 1999 to the distribution depreciation expense shown in the 1999 FERC Form 1, Page 336.

Response:

See Attachment AG-4-13, pages 1 and 2, for reconciliation of distribution depreciation expense for both 1999 and 2000.

Person Responsible: Stephen J. Curran

Request No.: AG-4-14

Please reconcile the common plant depreciation expense shown on Attachment AG-2-8-1 in 1999 to the common plant depreciation expense shown in the 1999 FERC Form 1, Page 356.1.

Response:

Attachment AG-4-14, pages 1 and 2, documents the common plant depreciation reconciliation for both 1999 and 2000.

Person Responsible: Stephen J. Curran

Request No.: AG-4-15

Please provide workpapers supporting the distribution taxes other than income taxes on Attachment AG-2-8-1.

Response:

Refer to Attachment AG-4-15, Page 1 of 2, for a schedule of accounts from the accounting records that comprise taxes other than income taxes for both 1999 and 2000 as reflected on Attachment AG-2-8-1. The workpaper (page 2 of 2) supports the property taxes capitalized and payroll taxes capitalized for both 1999 and 2000.

Person Responsible: Stephen J. Curran

Request No.: AG-4-16

Please provide workpapers supporting the administrative and general expenses allocated to distribution on Attachment AG-2-8-2.

Response:

Refer to Attachment AG-4-16 for schedule of accounts from the accounting records that comprise administrative & general expenses on Attachment AG-2-8-2. All amounts have been directly charged to these accounts.

As stated in response to AG-2-8g., expenses related to the Company's Water Heater Rental Program would be excluded by the Department from a cost of service. The following such accounts and amounts are included on Attachment AG-4-16.

	1999	2000
Outside Services:		
20-27-02-50-9230600 USC EXPS - WATER HEATER PROGRAM	8,262	12,214
20-27-02-50-9230700 LEGAL EXPS - WATER HEATER PROGRAM	2,938	0
Total Outside Services	11,200	12,214
Misc. General Expenses:		
20-27-02-50-9300100 ADVERTISING-GENERAL-WATER HEATER PROGRAM	68	0
20-27-02-50-9300200 ADVERTISING-CREATIVE-WATER HEATER PROGRAM	1,750	0

20-27-02-50-9300300 ADVERTISING-PRODUCTION-WATER HEATER PROGRAM	7,304	0
Total Misc. General Expenses	9,122	0

Person Responsible: Stephen J. Curran

Request No.: AG-4-17

Referring to Attachment AG-2-8-2, please explain the following:

a. The decrease in Outside Services expense from 1999 to 2000.

b. The decrease in Employee Pensions and Benefits expense from 1999 to 2000.

Response:

a. The decrease from 1999 to 2000 in Outside Services for the electric division has two primary drivers:

• Expenses for services provided by Unitil Service Corp were approximately $180K lower in 2000 than in 1999 because of lower billings by Unitil Service Corp to the Company.

• Legal costs were approximately $182K lower in 2000 than in 1999, largely because of a $117K reimbursement received in 2000.

c. The decrease from 1999 to 2000 in Employee Pensions and Benefits for the electric division has two primary drivers:

• Pension costs were down approximately $165K. These costs can fluctuate significantly due to market volatility, which affects the asset value of the pension plan's investments and the actuarial determination of pension costs. The reduction in costs between 1999 and 2000 was primarily caused by positive investment performance in 1999, which was reflected in reduced expense in 2000. Poor market performance in 2000 has been reflected in higher pension expense in 2001 relative to 2000.

- This 2000 decrease in pension costs was offset somewhat by increased health insurance costs of approximately $38K in 2000 over 1999.

Person Responsible: Stephen J. Curran

Request No.: AG-4-18

Referring to the response to Attorney General Information Request 2-9, are expenses related to Princeton Paper Company included in year 2000 expenses? If so, please identify such expenses.

Response:

The Company has not identified any expenses that are avoidable as a result of the loss of Princeton Paper.

Person Responsible: Mark H. Collin

Request No.: AG-4-19

Referring to Attachment AG-2-9-4, why is the fixed lease expense eliminated from the subtraction from the O&M base for inflation?

Response:

The amount for Fixed Leases is not being eliminated from the subtractions from the O&M base. Rather, the Fixed Lease credit reflects the adjustment to the O&M base to eliminate any impact of lease payments from the total other O&M expense used in the inflation calculation in accordance with Department precedent.

Person Responsible: Stephen J. Curran

Request No.: AG-4-20

Referring to Attachment AG-2-9-5, please reconcile the Depreciable Electric Plant - year-end 2000 to the Depreciable Electric Plant on Attachment AG-2-6(a), Page 2.

Response:

Attachment AG-4-20, page 1 of 1, documents the Depreciation Electric Plant reconciliation between AG-2-9-5 and AG-2-6(a), page 2 of 2. In performing this detailed reconciliation, the Company has made additional adjustments to arrive at Electric Depreciable Distribution Plant. These adjustments are for Joint Owned Unit costs, Intangible Plant that is amortized, Land and Land Rights, as well as Service Center Building Lease as shown on Attachment AG-4-20.

Person Responsible: Stephen J. Curran

Request No.: AG-4-21

Referring to Attachment AG-2-9-6, please provide supporting calculations for the 1.0575 factor.

Response:

Refer to Attachment AG-4-21, a schedule showing the calculation of the average annual percent increase in total property taxes during the period of 1992 through 2000. Total property tax has been used because the municipalities bill the Company for property taxes on electric and gas properties in total using one tax rate. The calculated average annual percent increase is converted into the factor on Attachment AG-2-9-6. In the process of preparing this response, it was discovered that there had been an arithmetic error in deriving the average percent increase from the individual years' data. The correctly calculated average annual percent increase is 6.2%, which converts to a factor of 1.062.

Person Responsible: Stephen J. Curran